

8903-K

41A720-S5
(10-06)

Department of Revenue

Kentucky

Domestic Production Activities Deduction

20__

► Attach to your tax return. ► See separate instructions.

Enter name(s) as shown on return.

Identification Number

1. Domestic production gross receipts	1		
2. Allocable cost of goods sold	2		
3. Directly allocable deductions, expenses or losses	3		
4. Indirectly allocable deductions, expenses or losses	4		
5. Add lines 2 through 4	5		
6. Subtract line 5 from line 1	6		
7. Qualified production activities income from general partnerships: If you are a— (a) General Partner	7	Enter the total qualified production activities income from— Form 765-GP	
8. Qualified production activities income. Add lines 6 and 7. If zero or less, enter -0- here, skip lines 9 through 17, and enter -0- on line 18	8		
9. Apportionment factor	9		
10. Apportioned qualified production activities income (line 8 multiplied by line 9)	10		
11. Income limitation (see instructions): • Enter your Kentucky taxable income after Kentucky NOLD figured without the domestic production activities deduction (tax-exempt organizations, see instructions)	11		
12. Enter the smaller of line 10 or line 11. If zero or less, enter -0- here, skip lines 13 through 17, and enter -0- on line 18	12		
13. Enter 3% of line 12	13		
14. Form W-2 wages (see instructions)	14		
15. Form W-2 wages from general partnerships	15		
16. Add lines 14 and 15	16		
17. Form W-2 wage limitation. Enter 50% of line 16	17		
18. Enter the smaller of line 13 or line 17	18		
19. Domestic production activities deduction from cooperatives. Enter deduction from Form 1099-PATR, box 6 multiplied by cooperative's apportionment factor	19		
20. Expanded affiliated group allocation (see instructions)	20		
21. Domestic production activities deduction. Combine lines 18 through 20. Enter here and on Form 720, Part I, line 23; Form 720S, Part I, line 26; Form 725, Part I, line 14; Schedule CP, Form 725, Part I, line 14; or Form 765, Part I, line 28 (see instructions)	21		

A cooperative must reduce the amount it enters on its return by the total deduction passed through to its patrons.

INSTRUCTIONS FOR FORM 8903-K

Purpose of Form – This form is to be used by taxpayers in calculating their Kentucky domestic production activities deduction (KDPAD).

Your KDPAD may be different from the federal DPAD because of differences in taxable net income and qualified production activity income resulting from differences in Kentucky and federal depreciation and expense deductions allowed under Sections 168 and 179 of the Internal Revenue Code (IRC) and other Kentucky adjustments provided by KRS 141.010.

KDPAD is limited by your Kentucky apportioned taxable net income before the KDPAD amount and is taken after the Kentucky net operating loss deduction (KNOLD).

KDPAD is only computed for corporations as defined in KRS 141.010(24). General partnerships (Form 765-GP), limited liability partnerships (Form 765), S corporations (Form 720S), and individually owned single member LLCs (Form 725 or Schedule CP, Form 725) shall provide for partners/shareholders that are corporations, individual nonresidents, estates, trusts, or general partnerships the Kentucky domestic production gross receipts, the federal domestic production gross receipts and Kentucky wages. Attach this information to Schedule K-1s.

For taxpayers other than corporations: (1) a full-year resident individual is allowed the federal deduction for the KDPAD; (2) a part-year resident or full-year nonresident individual shall prorate the allowable federal DPAD based upon the percentage of Kentucky domestic production gross receipts to federal domestic production gross receipts. The KDPAD shall not exceed 50 percent of the Kentucky W-2 wages from the entity that generated Kentucky domestic production gross receipts. Enter the KDPAD amount computed for a nonresident or part-year resident individual on Form 740-NP, page 3, Column B, Line 30.

When calculating your KDPAD, follow the IRS proposed or final Regulation §1.199 along with the exceptions provided in the Kentucky Regulation 103 KAR 16:310.

General Partnerships—Following federal instructions and using Kentucky amounts, attach a statement with the information necessary to enable each corporate partner to figure the DPAD under IRC § 199. If the partnership elected to use the small business simplified overall method to allocate and apportion cost of goods sold and deductions between domestic production gross receipts and other receipts for federal purposes, use the same method for Kentucky purposes using Kentucky amounts and attach a statement to each Schedule K-1 showing qualified production activity income (using federal Schedule K-1 code U or S2) and the employer's W-2 wages (using federal Schedule K-1 code V or S3).

Qualified Exempt Organizations—Any corporation of the type listed in KRS 141.010(24)(b) to (h) that is owned in whole or in part by a qualified exempt organization as provided by KRS 141.040(8)(b) shall in calculating the taxable net income and qualified production activity income for the purposes of the KDPAD exclude the proportionate share of taxable net income and qualified production activity income attributable to the ownership interest of the qualified exempt organization.

SPECIFIC LINE INSTRUCTIONS

Lines 1 through 6

Enter Kentucky amounts using the federal instructions.

Line 7

Only applies to corporations (corporations as defined in KRS 141.010(24)) that are general partners. For a corporate partner of a general partnership, the general partnership needs to compute its qualified production activities income based on Kentucky amounts as provided in the above instructions for General Partnerships.

Line 9

Enter the apportionment factor from Schedule A (Form 41A720A), Section I, Line 12.

Line 11

Corporations: Enter your Kentucky taxable income from the applicable return before your KDPAD deduction.

- Form 720, Part I, Line 22
- Form 720S, Part I, Line 25
- Form 725, Part I, Line 13
- Schedule CP Form 725, Part I, Line 13
- Form 765, Part I, Line 27

Line 14

Form W-2 wages are computed pursuant to KRS 141.120(8)(b) and Regulation 103 KAR 16:090E. This is the numerator of the payroll factor as computed on Schedule A (Form 41A720A), Section I, Line 8. Corporations that do not allocate and apportion under KRS 141.120 shall enter their Form W-2 wages included in the Kentucky return. Do not include Form W-2 wages you must report on Line 15. IRC Section 199 was amended to define W-2 wages to mean wages incurred in the domestic production activity. Kentucky has not adopted this change.

Line 15

Enter the Form W-2 wages from the schedule attached to your Kentucky Schedule K-1.

Line 19

Enter the amount from box 6 of Form 1099-PATR multiplied by the cooperative's Kentucky apportionment factor from Schedule A (Form 41A720A).

Line 20

The Expanded Affiliated Group (EAG) means entities included in the Kentucky expanded affiliated group. This only includes Kentucky corporations as defined in KRS 141.010(24) and doing business in Kentucky as defined in KRS 141.010(25) and Regulation 103 KAR 16:240E. The KDPAD for the EAG is based upon Kentucky amounts following federal rules.

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